A STUDY OF C. P. A. LEGISLATION IN THE UNITED STATES—1896-1940

BY

RALPH LESTER BOYD

B. Ed., Illinois State Normal University, 1930

M.S., University of Illinois, 1932

AN ABSTRACT OF A THESIS

SUBMITTED IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE DEGREE OF DOCTOR OF PHILOSOPHY IN ACCOUNTANCY IN THE GRADUATE SCHOOL OF THE UNIVERSITY OF ILLINOIS, 1941

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A STUDY OF C. P. A. LEGISLATION IN THE UNITED STATES—1896-1940

Public accountancy in the United States has developed so rapidly that there is, as yet, but little published information concerning its growth. There is a particular lack of general information regarding the development of legislation for state certification of public acountants. Materials for a study of such legislation in forty-eight states, the District of Columbia, and three territories are voluminous. Pertinent data, however, are brief, scattered, and incomplete.

The material for this study has been secured from the original minute books of the American Association of Public Accountants and the Federation of State Societies of Public Accountants in the United States of America; from correspondence and committee files of the American Institute of Accountants; from copies of the original C. P. A. laws of the several states and territories; from copies of new laws, amendments, and state board regulations; and from bulletins, yearbooks, articles, editorials, reports, and other sources. Unpublished details of attempts to secure original laws in a number of the states have been obtained by direct communication with certified public accountants familiar with the situation in those states.

The thesis is centered upon the efforts of American public accountants to attain professional standing, by national organization and state certification. It is limited to the influence of national organizations, state C. P. A. laws, and regulations of state boards, as they affect the creation of a distinctive title, the protection of that title, and the methods employed to insure that all those and only those well qualified and properly trained may be admitted to the profession of public accountancy.

Public accountancy in the United States had its beginning in the period of depression immediately following the financial panic of 1873. British chartered accountants, who had

already acquired a reputation in their own country as experts in financial investigation and financial management, were sent to this country by British capitalists to investigate the financial affairs of businesses in which they were interested. They came during the depression of the 1870's. They stayed during the period of recovery and rapid expansion of American industry during the 1880's and 1890's.

The demand for accounting services increased with the growth of American business. To meet this demand, American bookkeepers, clerks, and private accountants (after their usual working hours) often installed systems and made limited investigations to determine fraud or error. Before long, some of these part-time accountants were opening offices and offering their services to the general public. These were the first American public accountants. By 1882, sufficient interest in accounting had developed that an Institute of Accountants and Bookkeepers was formed in New York for the purpose of furnishing opportunities for lecture and discussion in accountancy and business procedure. Its membership was composed of bookkeepers, clerks, private accountants, business men, teachers, and American public accountants.

The suggestion was made in 1886, by some Pennsylvania accountants, that an organization of public accountants should be formed to promote interest in public accountancy and to issue chartered accountant certificates to its membership. The idea was discouraged by British chartered accountants in this country. In 1887, however, sponsored by British chartered accountants, the American Association of Public Accountants was organized in New York. Its membership consisted of a few British chartered accountants and several leading American public accountants. It was the first step toward attaining a professional status for public accountancy in the United States.

The Association, however, failed to achieve the immediate success expected. Without a system of technical training and examination, such as that of the British societies of chartered accountants, it could furnish no evidence of professional standing. Its titles, "F. A. A." and "A. A. A.," (intended to supplant

the British accountants, "C. A.") received small recognition. The prestige of chartered accountants continued to grow. Some plan other than mere organization seemed necessary to offset the title, "chartered accountant," and to build a public reputation for American accountants.

Chartered acountants in Great Britain secured their certificates after serving an apprenticeship period of training. This was a system of education in which the apprentice was instructed by the master, a member of the society of chartered accountants, was encouraged to attend lectures and to study materials on accountancy, and was tested from time to time by the society. After furnishing evidence of proper training for the profession, the apprentice was admitted to membership in the society and given the right to use the title, "chartered accountant." The system was similar to that for admission to the professions of law and medicine in Great Britain. It gave chartered accountants professional standing.

American public accountants were influenced by this British system of training. Apprenticeship methods, however, could not be employed in the United States. Public education, keeping the individual free from the domination of other individuals, was the American plan. In 1892, only five years after its organization, the American Association of Public Accountants proposed to the Board of Regents of the University of the State of New York that a college of accounts be incorporated to offer courses in accountancy and to grant degrees to its graduates. New York law required that an endowment of at least $500,000 was necessary to establish such a college. The probable impossibility of securing such an endowment led the board of regents to suggest that a school of accounts (an academy) be incorporated. The regents could then give examinations and grant diplomas to its graduates. Under such a plan, there was also the possibility that the regents might secure the power to issue licenses (similar to those for law and medicine) to public accountants.

A School of Accounts was established in 1892. It began operations in 1893 and dissolved, by lapse of charter, in 1894. Business men failed to support it; its students were few; its

faculty was apparently disinterested. Even the American Association of Public Acountants withdrew its support.

Unfortunately, the school was established at a time when it had little chance for financial success. The financial panic of 1893, and the succeeding period of depression, not only contributed to the failure of the school of accounts, but also set the stage for direct legislation. Agitation for reform in business practices led to the introduction of a bill in the New York assembly of 1894 which would have required financial examinations of all foreign corporations doing business within the state. Under the bill, these investigations were to be conducted by the office of the state's attorney general. The American Association protested the section providing that audit work should be performed by the attorney general. It pointed out that a group of qualified public accountants was already in existence and had been recognized by the board of regents through the incorporation of the New York School of Accounts. Members of the Association, however, soon learned that neither the organization nor their sponsorship of the school of accounts gave them any especial public recognition.

It seemed apparent that only by direct legislation could public accountancy in the United States secure a professional status. Stimulated by the intense competition among public accountants during the depression of the 1890's, by the failure of the school of accounts, by the desire to overcome the prestige of the chartered accountant, and by the efforts of chartered accountants themselves to secure regulatory legislation in Great Britan, the American Association prepared a public accountancy licensing bill. The bill provided for the granting of licenses, after examination, and the restriction of public accountancy practice to those licensed by law. It was further provided that no one could be admitted to examination unless he had completed a two-year course of study in an approved technical school of accounts and in addition, should perform acceptable service in the office of a public accountant for not less than three years. Here again was evidence of the desire to secure a professional status.

Probably learning of the efforts of the American Associ-

ation to secure licensing of public accountants, the Institute of Accounts also prepared a public accountancy bill. This bill, however, provided for a new and distinctive title, certified public accountant. It provided for limited restriction of practice of certificate holders, but made no provision for professional training.

The two bills were introduced to the New York legislature in 1895. Lack of cooperation among public accountants and general opposition to the restrictive provisions, led to the defeat of both bills. A so-called compromise bill was enacted into law in 1896. It was (omitting the restrictive provision) an almost identical copy of the Institute's 1895 bill. It provided for the issuance of the title, certified public accountant. The board of regents was given the power to administer the law, to determine qualifications of candidates, and to appoint the examining board of public acountants.

Regulations of the board of regents provided that all candidates for examination must have had at least the equivalent of a high school education and three years of experience in accounting, at least one in the office of an expert public accountant. No provision was made, either by law or by regulation, for technical education of candidates. No school of accounts was then in existence. It was expected tht the regulations for high school education and accounting experience, together with a satisfactory examination, would be sufficient to determine the qualifications for certification.

Almost immediately after the passage of the New York law, public accountants in other states hurried to secure similar legislation. Bills were soon presented to the legislatures in the states of California, Illinois, Kansas, Minnesota, New Jersey, Pennsylvania, and Wisconsin. None, however, were at first successful. Lack of public interest, failure of public accountants to cooperate, and political opposition to new administrative boards, were generally responsible for failure.

Nevertheless, efforts continued. Pennsylvania accountants secured a C. P. A. law in 1899. Maryland followed in 1900; California in 1901. Yet, there was still a feeling among accountants that the new title would never become generally ac-

cepted in the United States. In fact, Michigan and Massachusetts accountants organized local societies and attempted to publicize the initials, "I. P. A." The New York Institute of Accounts, the American Association of Public Accountants, the New York Society of C. P. A.'s, and even the National Association of C. P. A.'s (formed in 1897 expressly for the purpose of promoting such legislation) made no effort to encourage the spread of C. P. A. legislation. For a time it appeared that there would be no general movement towards state certification.

To foster the spread of C. P. A. legislation, an agressive organization, the Federation of State Societies of Public Accountants in the United States of America, was formed in 1902. Its plan was to organize state associations of public accountants; to combine these organizations into a national federation; and to coordinate their efforts to secure legislation. Although in existence for only three years, the Federation gave a much needed impetus to the C. P. A. movement. Its committee on state legislation was especially active in furnishing information to state organizations, in preparing suitable C. P. A. bills, and in supporting state legislative attempts.

Illinois and Washington, in 1903; and New Jersey, in 1904; continued the movement. By this time, seven states had enacted C. P. A. laws. All provided for the issuance and protection of the title, "C. P. A."; none prohibited the uncertified from engaging in practice; none provided for technical education in accountancy; only two provided for administration by educational boards; three made no provision for general education; and five made no provision for professional training of any kind. Public accounting experience as a prerequisite for waiver certificates, and satisfactory examinations for future candidates, seemed to be sufficient for determining the qualifications of applicants for state certification. The idea of a profession based upon technical education in accountancy appeared to be forgotten in the desire for a state-granted title.

To encourage the spread of state C. P. A. legislation along uniform lines, the American Association of Public Accountants reorganized and absorbed the Federation of State Societies

in 1905. During the eleven-year period immediately following this merger, state legislation spread so rapidly that laws were enacted in thirty-two additional states. So rapid was the movement that the Association found it impossible to secure the uniformity desired. Part of the difficulty was due to its form of organization. It was, in effect, a federation of state societies. It had no direct control over its membership and acted only through state organizations. Consequently, it refused to encourage the formation of organizations and the promotion of state legislation except where a sufficient number of reputable public accountants had already established their practices.

The tremendous expansion of industry and commerce created such a demand for the services of public accountants that a growing number of bookkeepers, private accountants, governmental employees, and others, were attracted to public practice. The prestige of the certified public accountant, the increasing local competition in practice by national accounting firms, and the desire of the uncertified to secure certification without examination, helped to speed the spread of legislation.

Pressure to secure the title caused the development of an unsatisfactory trend in C. P. A. legislation. In some states, waiver certificates were granted to bookkeepers and private accountants. In others, laws provided for administration by political or semi-political boards. Political pressure, and the consequent lack of certification standards, led to such a laxity in the granting of certificates, either by complete waiver or by inadequate examination, that the American Association deemed it necessary to express its disapproval of the laws enacted in eleven states. In seventeen of the thirty-two states, no provision was made for professional training of candidates. In three others, applicants for examination might substitute private accounting experience for public accounting requirements. In spite of increased facilities for educating accountants, not a single law or state board regulation required technical education in accountancy.

In an effort to improve standards for admission to the profession of public accountancy, the American Association reorganized as the American Institute of Accountants in 1916.

The new organization admitted to membership only reputable practicing public accountants who passed an examination conducted by a board of examiners of the Institute. No direct recognition was given to the certified public accountant. Its members were urged to use the initials, "A. I. A." instead of the title, "C. P. A." However, a uniform examination service was offered to state boards of accountancy and those successful in passing state examinations approved by the Institute were accepted for membership without additional examination. So successful was the plan of uniform examination that by 1921, only four years after its adoption, it was being used in thirty-six states. By 1940, forty-five states and territories were using the Institute's questions.

No encouragement was offered to the continued spread of C. P. A. legislation. Yet, efforts of local accountants succeeded in securing the enactment of laws in all the remaining states by 1921. Of the nine laws enacted from 1916 to 1921, only one was entirely satisfactory to the American Institute. Four made no provision for public accounting experience; three states provided for political administration; and one state granted waiver certificates to political appointees. No provision for technical education in accountancy was provided by any law.

The neglect of state C. P. A. legislation by the American Institute made it possible for another organization to come into existence. The National Association of C. P. A.'s (taking its name from one formed in 1897) was organized about 1920 in the District of Columbia for the ostensible purpose of uniting the certified public accountants in the United States. Its activities, however, threatened to destroy the significance of the state-granted titles. It held perfunctory examinations, collected fees, and issued "C. P. A.—N. A." certificates. Within a period of six months after its organization, it had sold, throughout the United States, almost as many certificates as had been issued under state C. P. A. laws during the preceding period of twenty-four years. This flood of bogus certificates naturally delivered a severe blow to the already doubtful prestige of the certified accountant.

The first impulse of the leaders of the American Institute of Accountants was to abandon recognition of the certified public accountant entirely and to organize an Association of American Chartered Accountants. Before such an organization could be formed, however, the American Society of C. P. A.'s was formed in 1921 to protect the state-granted certificates. For a short time, it seemed impossible that public accountancy would ever acquire a professional status. Three separate national organizations were fighting one another. The National Association of C. P. A.'s was selling its certificates to any and all applicants; the American Institute of Accountants was trying to establish a reputation for its members; and the American Society of C. P. A.'s was attempting to protect the state-granted titles.

Recognizing the need for cooperation among reputable public accountants, the American Institute gave up its plan for an organization of chartered accountants and brought suit against the National Association of C. P. A.'s. A lower court decision in 1922, upheld by the Court of Appeals of the District of Columbia in 1923, restrained the National Association from holding examinations, from issuing C. P. A. certificates, and from advertising its titles.

To restrict further the activities of the National Association, the American Institute and the American Society cooperated in securing the passage of a C. P. A. law in the District of Columbia. This law was enacted in 1923. Similar laws were also obtained during the same year in the territories of Alaska, Hawaii, and the Philippine Islands. Puerto Rico, in 1927, was the last to enact such a law.

Difficulties with the National Association convinced many certified public accountants that public accountancy could never be a real profession so long as anyone, regardless of qualifications, was allowed to engage in its practice. Efforts were soon made to secure legislation restricting the practice of public accountancy to state certificate holders. Early efforts to secure restrictive legislation (New York in 1895 and Ohio in 1904) had been unsuccessful largely because of opposition from private accountants and governmental employees. An

Oklahoma restrictive law, enacted in 1917, had been frowned upon by the American Institute. Following the activities of the National Association, however, both the American Institute of Accountants and the American Society of C. P. A.'s encouraged the adoption of restrictive legislation. Failing to secure a restrictive law in New York, learning of the invalidity of the restrictive laws in Oklahoma and Illinois, and finding that local accountants in a number of states were desiring restrictive legislation to keep out national accounting firms, the Institute withdrew its support of the movement. The American Society of C. P. A.'s, however, continued to advocate restrictive legislation to the time of its merger with the American Institute in 1936.

Encouraged by the American Society of C. P. A.'s, restrictive laws were enacted in Maryland and Louisiana during 1924, and in North Carolina, Tennessee, and Michigan in 1925. Uncertified accountants also succeeded in securing a law in Illinois during 1925. This law would have restricted practice to a group of state licensed public accountants and would have repealed the Illinois C. P. A. law. The law was declared unconstitutional. However, Illinois uncertified accountants were again successful in 1927. In that year they secured the passage of a restrictive law which provided for practice only by licensed public accountants. C. P. A.'s could use their titles but could not practice without a license.

In spite of opposition from uncertified accountants and adverse court decisions, the restrictive movement has gradually continued. Florida (1927), Virginia (1928), Iowa, (1929), Mississippi (1930), Arizona (1933), Wisconsin (1935), Colorado (1937), all have restrictive laws in force. Montana secured a restrictive law in 1935 but removed the provision in 1937. Washington enacted a special law granting certificates as "public accountant" to those with public accounting experience who desired to be registered. The C. P. A. law was also continued in force. Numerous other attempts have been made to secure restrictive laws, and the movement is still in progress.

The national character of public accountancy practice has

made it desirable, particularly under restrictive legislation, that certificate holders from one state be granted the right to engage in practice in another. The first C. P. A. laws made no provision for recognition of out-of-state titles. Illinois (1903 provided for complete recognition of all out-of-state certificates. New Jersey (1904) provided for registration of out-of-state certificates, but required that similar recognition must be granted to New Jersey certificate holders. Reciprocity of recognition became the most widely adopted method of providing for interstate practice. However, a wide divergence in the requirements for professional preparation and certification of candidates has caused a change in the form of recognition to a plan of registration on the basis of similar standards.

So long as laws were non-restrictive, anyone could engage in public accountancy practice. The only penalty provided was for the illegal use of the title, "C. P. A." With restrictive legislation, however, no one may practice unless he secures a state certificate, or has been exempted from the restrictive provisions of the state law. It thus becomes extremely important to those public accountants engaged in practice of an interstate character, that some means be provided whereby permission to practice may be secured without undue expense or hindrance. The future solution to this problem will probably be to provide for the registration of the out-of-state certificate, at nominal fee, merely upon application, accompanied by a statement of good standing from the issuing board.

Requirements for the professional training of candidates for certification have been generally lacking in state C. P. A. legislation. Early efforts to secure professional standing for American public accountants centered about technical education for the profession. That state certification (based primarily upon examination) came to be the method of securing recognition for public accountancy was more the result of circumstances than of plan. The desire for a distinctive title, the lack of educational facilities, and the need for junior accountants, caused practitioners to emphasize practical accounting experience ,especially in the office of a public accountant, above technical education for admittance to the profession.

The wide variation in standards for certification and the occasional laxity in the examination of candidates further emphasized the need for public accounting experience as evidence of technical qualifications. However, public accounting experience as a requirement for admission to the C. P. A. examinations is yet far from being general. Only three states actually provide that all experience required must be obtained in the practice of public accountancy. Eighteen other states provide that some experience must be in the practice of public accountancy, but that other types of experience (or technical education) may be substituted for part of the requirements. Three states have no experience requirement whatever. The remaining twenty-eight states and territories have experience requirements, but provide that other types of training (either private experience or technical education) may be completely substituted for public accounting practice.

Recommendations for technical education requirements in C. P. A. legislation have appeared from time to time since 1907. It was not until 1916, however, that such education was given equal recognition with public accounting experience. In that year, Maryland accountants secured an amendment to their C. P. A. law, providing that every candidate would be required to complete a two-year approved course in accountancy. Public accounting experience could be substituted for the technical education requirement. It was the first time that the complete interchange of technical education and public accounting experience, as methods of securing professional training, was recognized in C. P. A. legislation.

War work, restrictive legislation, and internal dissension among public accountants, were distracting influences for a time. Neverthless, there has been a gradual increase in the emphasis upon education for the profession. By the end of 1940, twenty-three states and territories gave some recognition to technical education in accountancy. However, only one law (New York) actually required that *all* candidates for the C. P. A. examination must have completed an approved course of study in accountancy.

Public accountancy in the United States is now far be-

hind other professions in its requirements for professional training. Most of the states (but not all) require candidates to have had at least the equivalent of a high school education. In only one state (California) is there a requirement for general (i.e., non-technical) education beyond that of high school graduation, and that requirement does not take effect until 1944. As indicated above, even the experience requirements are neither general nor uniform.

The uniform examination of the American Institute of Accountants has done more than anything else to give the certified public accountant certificate its present high standing in the United States. Professional training requirements and restrictive legislation are spreading.

C. P. A. legislation is not merely a series of local laws; it is a part of a great movement to secure professional recognition for public accountants in the United States. It can come about through the leadership of the national organization (and its state societies) and the cooperation of state boards of accountancy. Great progress has already been made. Yet public accountancy will probably never be completely recognized as a profession in this country until every state requires professional training of all candidates for examination and restricts the public practice of accountancy to those certified by law.

VITA

Ralph Lester Boyd was born in Annawan, Illinois, January 14, 1904. He attended the Annawan Public Schools and was graduated from the Annawan-Alba Township High School in 1921. For several years thereafter, he was employed in office, clerical, and bookkeeping positions. From 1927 to 1930 he was employed as a junior and as a senior accountant with the public accounting firm of A. R. Williams & Co., Bloomington, Illinois. From 1930 to 1934, he was a teacher of commercial subjects in the Urbana High School, Urbana, Illinois. From 1934 to 1937, he served as Professor of Accounting in the Bowling Green College of Commerce, Bowling Green, Kentucky. From 1937 to 1941, he was an Assistant Professor of Business Education at Illinois State Normal University. He received the Bachelor of Education degree from Illinois State Normal University in 1930; the Master of Science degree in accountancy from the University of Illinois in 1932; and the Certified Public Accountant certificate from the State of Illinois in 1933. Since 1927 he has been active in public accountancy work as a junior accountant, as a senior accountant, and as a principal.